United Nations DP/2003/6

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.: General
31 October 2002

Original: English

First regular session 2003
20 to 29 January 2003, New York
Item 7 of the provisional agenda
Recommendations of the Board of Auditors, 2000-2001

UNDP: Report on implementation of the recommendations of the Board of Auditors for the biennium 2000-2001

Report of the Administrator

Summary

In taking note of the present report, the Executive Board may also wish to note that UNDP has made considerable progress in implementing the recommendations made by the Board of Auditors in its report for the biennium 2000-2001.

1. As in previous bienniums, and in accordance with General Assembly resolutions 47/211 of 22 December 1992 (paragraphs 9, 10 and 12) and 48/216 B of 23 December 1993 (paragraph 5), the Administrator is bringing to the attention of the Executive Board the report on the implementation of the recommendations of the Board of Auditors on UNDP for the biennium ending 31 December 2001 (A/57/5/Add.1).

2. The present report has been prepared in response to General Assembly resolutions 48/216 B and 52/212 B, in which the General Assembly requested that the Secretary-General and the executive heads of United Nations organizations and programmes provide the General Assembly with their responses and indicate measures that would be taken to implement those recommendations, with appropriate timetables, at the same time that the recommendations of the Board of Auditors are submitted to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions (ACABQ).

3. The annex to the present document contains an update of the actions taken by UNDP on the recommendations of the Board of Auditors. The paragraph references

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in the annex are from document A/57/5/Add.1, United Nations Development Programme, Financial report and audited financial statements for the biennium ended 31 December 2001, Report of the Board of Auditors. The Administrator has provided an update on the UNDP response to each recommendation, the status of any follow-up action and the target date for completion at the date of preparing the present document. The Administrator is pleased to report that progress has already been achieved in most areas and that efforts are being made to address the issues that are still outstanding.

Annex

A. Financial issues

1. Financial overview

Regular resources

4. **Recommendation in paragraph 16.** The Board recommends that UNDP monitor its financial position and continue to adopt measures to ensure that it maintains a healthy fund balance for its regular resources.

5. **UNDP response.** UNDP continuously and prudently manages the financial position of its regular (core) resources through a comprehensive allocation and monitoring system that is strictly enforced. Regular resource allocations are only made in accordance with decisions taken by the Executive Board; the amounts actually released are always in line with best estimates of resource availability. Prior to their release, expenditure ceilings are negotiated and established centrally between country offices and other programme managers responsible for programmes at the headquarters level, based on evolving income levels. The budgetary build-ups required to attain expenditure targets are also closely monitored. Early warning systems are in place whereby preventive action can be taken if a programme appears in danger of exceeding its established target. In extreme cases where immediate action is not taken, the approval authority of the resident representative or programme manager would be revoked. All this being said, while there was a turnaround in regular resource contributions in 2001, the current low level of regular resources remains a challenge for UNDP.

Funds administered by UNDP

6. **Recommendation in paragraph 23.** The Board recommends that UNDP monitor the financial position of the funds administered by it to ensure that it maintains healthy fund balances.

7. **UNDP response.** UNDP does exercise oversight over the funds administered by it. The oversight mechanism includes regular reviews and meetings between relevant UNDP budget/finance staff and the management of the respective funds.

8. UNDP agrees with the overall comments on the financial position of regular resources in the United Nations Capital Development Fund (UNCDF). Since the last biennium, UNCDF, led by the Executive Secretary, has made intensive efforts to reverse the decline in contributions to regular resources. It is important to note that this reduction continued despite the addition of four new countries of the Development Assistance Committee of the Organisation for Economic Co-operation and Development to the list of UNCDF contributors. The decrease is attributable to adverse exchange rates, the withdrawal of one donor from providing core funding and another major donor reducing significantly its contribution to core resources for burden-sharing reasons.

9. Internally, efforts are being deployed intensively to monitor the situation to reduce programme expenditures at a level commensurate with income. The level of new approvals has been reduced even below the level authorized under the partial funding formula so as to ensure that the liquid reserves are sufficient to cover expenditures in a rather unstable situation with regard to core funding. In 2002, in view of the fact that actual core contributions were lower than anticipated, UNCDF had to rephase a portion of expenditures that were supposed to be incurred the same year. If there is no improvement in core contributions, UNCDF will continue its rephasing exercise in 2003 and reduce further new approvals.

10. A comprehensive review of UNCDF programme commitments is ongoing with a view to identifying projects that could either be terminated or scaled down.

11. UNDP monitors the fund balances of the United Nations Development Fund for Women (UNIFEM) by reviewing their financial statements and the semi-annual calculation of the operational reserve. UNIFEM fund balances and operational reserve increased for the biennium ended 31 December 2001.

2. United Nations system accounting standards

Miscellaneous income from foreign exchange management activities

12. **Recommendation in paragraph 29.** The Board recommends that UNDP expand its current disclosure of foreign currency transactions and other financial instruments used for hedging against currency fluctuations and UNDP agreed. UNDP should also consider incorporating in its disclosure aspects regarding risks relating to foreign currency, as well as its financial risk management objectives and policies.

13. **UNDP response.** The Office of Finance and Administration, Bureau of Management, will ensure that the agreed-on recommendation is implemented for the next biennium reporting.

3. Valuation of non-expendable equipment

14. **Recommendation in paragraph 35.** The Board recommends that UNDP: (a) review its headquarters non-expendable equipment inventory in a cost-effective manner to ensure that it provides realistic valuations in accordance with United Nations system accounting standards; (b) closely monitor the annual country office inventory returns; and (c) implement stricter measures to ensure that all returns are received on time.

15. **UNDP response.** UNDP agrees with the recommendation. The valuation of the inventory will be reviewed to reach a more realistic non-expendable equipment inventory value. This will include the actual cost of the equipment based on purchase orders and the replacement values to reach a decision by December 2002 on how to provide realistic valuations in accordance with the United Nations system accounting standards.

16. Follow-up with the country offices commenced in September 2002 and action will be taken to resolve the technical problem, which country offices are

encountering with the inventory system, before the end of December 2002 to ensure more timely returns.

17. The Director of Administrative Services Division, Office of Finance and Administration, is responsible for follow-up action.

4. Bank and investment reconciliations

18. **Recommendation in paragraph 38.** The Board recommends that all bank accounts be reconciled and a formalized procedure be implemented for the review of material bank account reconciliations, and UNDP agreed.

19. **UNDP response.** On a monthly basis, the Chief of the General Accounting Unit reviews the reconciliation and a copy is forwarded, formally, to the Treasury Section for follow-up action on the reconciling items.

20. **Recommendation in paragraph 40.** The Board recommends that UNDP follow up on long-outstanding items in receivables and thereafter consider writing off the irrecoverable amounts, and UNDP agreed.

21. **UNDP response.** The receivable amount of $271 868 has been reduced to $254 568. This amount represents disbursements from the system conversion that were booked in the Integrated Management and Information System (IMIS) but not disbursed through the bank. The cash balance has been corrected and the offsetting balance will be written off as an adjustment to miscellaneous income before December 2002.

22. **Recommendation in paragraph 44.** The Board recommends that UNDP expedite its follow-up of all outstanding reconciling items and unresolved differences in order to effect the appropriate adjusting entries in a timely manner.

23. **UNDP response.** The amounts relating to the difference between amounts booked and the amount on the bank statement for the Creditanstalt Bankverein was corrected in September 2002. The amount of $584 700 listed as items without bank account in the year-end reconciliation of cash has been reconciled and cleared in September 2002.

24. **Recommendation in paragraph 46.** The Board recommends that UNDP review payroll bank reconciliations.

25. **UNDP response.** The reconciliation of UNDP payroll accounts is with the United Nations accounting group. Access to UNDP IMIS has been established for the United Nations staff responsible; follow-up to the reconciliations for review is being pursued by the Chief, General Accounting and Contributions Unit, Office of Finance and Administration, Bureau of Management.

26. **Recommendation in paragraph 48.** The Board recommends that efforts be continued to reconcile differences and to make the necessary adjustments to the financial records, and UNDP agrees. The Board further recommends that UNDP

should reconcile the Millennium system to the IMIS system on a monthly basis in order to expedite the follow-up of differences that may occur.

27. **UNDP response.** The IMIS-Millennium reconciliation for 2001 is continuing and will be completed by the end of 2002. In accordance with the recommendation of the Board, IMIS-Millennium reconciliations for 2002 are being conducted on a monthly basis. The Treasurer, Office of Finance and Administration, Bureau of Management, is responsible for the follow-up action.

5. Unidentified receipts

28. **Recommendation in paragraph 51.** The Board recommends that UNDP continue its efforts with regard to the lack of information provided by donors when paying contributions in order to further reduce the amount of unidentified receipts, and UNDP agreed.

29. **UNDP response.** The implementation of Internet banking facilities at UNDP country offices and the simultaneous decentralization of United States dollar cost-sharing contributions to UNDP country offices has continued throughout 2002. To date, such facilities have been introduced in 66 country offices and will expand to approximately 100 country offices by the end of 2002. All remaining country offices are expected to be completed by the end of 2003. In addition, the Treasury Division will place additional resources toward the investigation and resolution of unidentified receipts, which still are paid directly to headquarters bank accounts. The Treasurer, Office of Finance and Administration, Bureau of Management, is responsible for the follow-up action.

6. Unliquidated obligations

30. **Recommendation in paragraph 54.** The Board recommends that all organizational units review unliquidated accounts on a monthly basis and provide the required certification of valid obligations in a timely manner and follow-up on any differences in unliquidated obligations reported by organizational units to make the necessary adjustments to the financial records.

31. **UNDP response.** The Chief, Corporate Financial Reporting Section, Comptroller's Division, will issue guidelines by 31 December 2002 and monitor to ensure compliance.

32. **Recommendation in paragraph 56.** The Board recommends that obligations be recorded only on the basis of valid obligating documents and that they be recorded in the appropriate accounting period.

33. **UNDP response.** United Nations Volunteers (UNV) agrees with the recommendation of the Executive Board. UNV confirms that they have at all times adhered to the normal rule. However, it had to make an exception in December 2001 because UNV was clearly committed, having taken all necessary steps to make these purchases before 31 December against a specific budget allocation identified and confirmed at the end of the third quarter. By doing so, however, UNV was able to save $6 000.

7. Accounts receivable

34. **Recommendation in paragraph 60.** The Board recommends that a complete ageing of accounts receivable be regularly reviewed with the view to collecting long-outstanding amounts, and UNDP agreed.

35. **UNDP response.** The Comptroller's Division expects to provide aging analysis once the planned implementation of its new enterprise resource planning (ERP) system takes place.

8. End-of-service benefits

36. **Recommendation in paragraph 62.** The Board recommends that UNDP, in conjunction with the United Nations and other funds and programmes, review the funding mechanism and targets for end-of-service benefits to provide for the full estimated liability.

37. **UNDP response.** Discussions will take place in 2003 about the funding mechanism and targets to provide for the full estimated liability for end-of-service benefits. Until a combined decision is made, however, UNDP will continue to provide for an annual accrual. UNDP will seek the United Nations Board of Auditors guidance on this issue.

B. Management issues

1. Programme expenditure

38. **Recommendation in paragraph 69.** The Board recommends that UNDP intensify its efforts to clear the remaining long-outstanding differences with executing agencies and make the necessary adjustments to the records. Also, UNDP should follow up in a timely manner on any differences in the quarterly reconciliations and apply a consistent basis of comparison.

39. **UNDP response.** Out of 32 agencies, three have not submitted their 31 December 2001 reconciliation. UNDP has assigned two examiners on a full-time basis to intensify the reconciliation of differences between agencies and UNDP books. Actions being undertaken to resolve issues include:

(a) With the new standard reconciliation format required from the agencies, details of long-outstanding items, particularly those prior to 1999, are now identified and being fully investigated;
(b) On behalf of the agencies, communications are being sent to the country offices and other in-house offices to facilitate settlement of disputed charges;
(c) Associated agency queries are being followed up between the executing and implementing agencies to assist in resolving issues;
(d) Queries regarding expenditures and administrative and operational services are being investigated and details by projects are being sent to the agencies to enable them to identify discrepancies.

40. Considering that disputed items date as far back as the early 1990s, our analysis will take about two to three years to ascertain the validity of the agencies' operating fund statement on outstanding balances.

41. The Comptroller, Office of Finance and Administration, Bureau of Management, is responsible for the resolution of the above.

Programme expenditure incurred by Governments

Advances: operating funds provided to Governments

42. **Recommendation in paragraph 83.** The Board recommends that efforts be intensified to complete the review of outstanding advances provided to Governments and non-governmental organizations and to provide for amounts considered doubtful or to write off all necessary amounts; UNDP agreed.

43. **UNDP response.** The review of outstanding advances is part of the data clean-up exercise currently being undertaken in readiness for the new ERP implementation. In light of the complexity of the outstanding balances, resulting from the length of time outstanding and volume, the review and analysis process is estimated to take two to three years to complete. Analysis is a key first step in the process to ascertain the validity of the balances. The provision for write-off or doubtful accounts will derive from this analysis. The Country Office Accounting Services, Comptroller's Division, is the responsible unit.

Appointment of nationally executed expenditure auditors

44. **Recommendation in paragraph 85.** The Board recommends that details of the appointment of nationally executed expenditure auditors be included in their monitoring tools and that such details be used to verify compliance with the UNDP Programming Manual; UNDP agreed.

45. **UNDP response.** This monitoring will be done as part of the internal audit of country offices and has already been incorporated into the Office of Audit and Performance Review (OAPR) country office audit guide.

46. **Recommendation in paragraph 87.** The Board recommends that specific procedures and pre-determined criteria be included in its directives on nationally executed expenditure to ensure that auditors of the required independence, integrity and technical competence are appointed and that the compliance with those directives is monitored by the country office. UNDP agreed with the recommendation.

47. **UNDP response.** Draft guidance has been prepared and will be communicated to country offices by the end of October 2002.

Terms of reference, audit scope and format of audit reports

48. **Recommendation in paragraph 92.** The Board recommends that UNDP: (a) ensure that standard terms of reference are agreed upon by the government

implementing partners and the country office as well as the nationally executed expenditure auditor and that the scope and format of the audit report is consistent; and (b) compile a mandatory checklist of the standard requirements to assist country offices in adhering to the requirements of the Programming Manual. UNDP agreed with the recommendation.

49. **UNDP response.** OAPR is in the process of revising the terms of reference described in the Programming Manual to reflect the move towards greater harmonization of audit requirements. This is a significant change and will require input from the rest of UNDP before it can be finalized. The terms of reference, therefore, are unlikely to be finalized before the end of 2002. The mandatory checklist is in progress and will be communicated to country offices by the end of October 2002.

50. **Recommendation in paragraph 94.** The Board recommends that audit clauses be included in project agreements and that their implementation be monitored; UNDP agreed.

51. **UNDP response.** This monitoring will be done as part of the internal audit of country offices and has already been incorporated into the OAPR country office audit guide.

Plans for nationally executed expenditure audit coverage

52. **Recommendation in paragraph 97.** The Board recommends that special attention be devoted to country offices that have not submitted plans for audit on time by requesting such offices to commence the planning exercise well in advance of the prescribed deadline, and that UNDP headquarters intensify its follow-up action with respect to country offices that have defaulted in adhering to requirements. UNDP agreed with the recommendations.

53. **UNDP response.** OAPR procedures have been revised to incorporate the Board of Auditors recommendation. The recommendation will be implemented for the preparation of the 2002 nationally executed expenditure audit plan.

Country office action plans

54. **Recommendation in paragraph 100.** The Board recommends that the reasons for the non-submission of country office action plans should be actively followed up and investigated, and UNDP agreed.

55. **UNDP response.** OAPR procedures have been revised to incorporate the Board of Auditors recommendation. The recommendation will be implemented for the preparation of the 2002 nationally executed expenditure audit plan.

Audit coverage of nationally executed expenditure

56. **Recommendation in paragraph 103.** In order to ensure suitable audit coverage of nationally executed expenditure audits, the Board recommends that UNDP actively follow up on the final expenditure figures to update the level of planned

coverage, and UNDP agreed. Furthermore, planned coverage should be based on criteria established by UNDP.

57. **UNDP response.** OAPR procedures have been revised to incorporate the Board of Auditors recommendation. The recommendation will be implemented for the review and monitoring of the 2002 nationally executed expenditure audit plan.

58. **Recommendation in paragraph 105.** The Board recommends that the financial effect of the nationally executed expenditure audit qualifications be quantified and that UNDP evaluate such qualifications against the action plans for reasonableness. UNDP agreed with the recommendations.

59. **UNDP response.** OAPR tracks the financial effect of the nationally executed expenditure audit qualifications, where this information is available in the audit report. However, frequently this information is not recorded in the audit report and OAPR will address this problem by preparing a new terms of reference for audits, as indicated in the response to paragraph 92. OAPR already assesses action plans to ensure that major audit findings are addressed.

Evaluation of nationally executed expenditure audit reports

60. **Recommendation in paragraph 109.** The Board recommends that: (a) more guidance and assistance be provided to country offices in the planning and administration of the nationally executed expenditure audits; (b) a condition that the audit must be completed within a specific time frame should be included in the contract between the nationally executed expenditure auditor and the implementing partners in order that the country office might meet the 30 April deadline; and (c) a forward-planning exercise be drawn up to ensure sufficient resources are available to perform evaluations of nationally executed expenditure reports following the prescribed deadline. UNDP agreed with the recommendations.

61. **UNDP response.** Regarding parts (a) and (b), draft guidance has been prepared and will be communicated to country offices by the end of October 2002. Regarding part (b), country offices will be provided with a model contract, which includes the requirement to meet the 30 April deadline. Regarding part (c), OAPR has prepared a roster of consultants, which should reduce the time required to find qualified people to perform evaluations of nationally executed expenditure audit reports.

62. **Recommendation in paragraph 111.** The Board recommends that UNDP intensify its efforts to reconcile the amount [referred to in paragraph 110 of document A/57/5/Add.1], and UNDP agreed.

63. **UNDP response.** The country office concerned subsequently advised OAPR that it agrees with the expenditure amount recorded in the OAPR database. The office has subsequently submitted a copy of the relevant combined delivery report (CDR).

64. **Recommendation in paragraph 114.** The Board recommends that country offices provide to UNDP headquarters information on their evaluations of projects not subjected to nationally executed expenditure audits and that headquarters, in turn, utilize such information as a component for risk-based assessments.

65. **UNDP response.** OAPR will provide country offices with additional guidance on how to select projects for audit by end October 2002. This guidance will include the need to provide OAPR with information about the results of monitoring and evaluation activities, where projects are not selected for audit.

Risk-based nationally executed expenditure database

66. **Recommendation in paragraph 117.** The Board recommends that a comprehensive database be created to facilitate the implementation of a risk-based assessment model, and UNDP agreed.

67. **UNDP response.** OAPR will investigate the feasibility of including its assessment of country office monitoring activities in its database, as this will facilitate implementing a risk-based assessment model.

Audit costs for nationally executed expenditure audits

68. **Recommendation in paragraph 120.** The Board recommends that UNDP: (a) update the policy in line with the UNDP Programming Manual with regard to the funding of audit costs; (b) maintain data relating to audit costs for each project on the consolidated database; and (c) have country offices analyse the audit costs to determine whether the benefit of the audit of the project exceeds the cost and its relation to the project expenditure as well as risk assigned to the project.

69. **UNDP response.** Regarding part (a), a draft has been prepared and will be submitted to the Bureau for Development Policy (BDP) to update the Programming Manual by the end of September 2002. Regarding part (b), this has been done. Regarding part (c), OAPR will provide offices with additional guidance on how to select projects for audit by the end of October 2002.

2. Shared services

Headquarters service-level agreements

70. **Recommendation in paragraph 127.** The Board recommends that the service-level agreements for services provided by UNDP to UNFPA and UNOPS be finalized and implemented as a matter of priority.

71. **UNDP response.** UNDP is giving priority to these agreements. A draft agreement has now been completed and is currently under review, with a view for completion by October 2002.

72. **Recommendation in paragraph 129.** The Board recommends that UNDP implement stricter time frames for the reimbursement of services delivered and that the outstanding reimbursements for the biennium 2000-2001 be made as soon as possible.

73. **UNDP response.** The new agreements establish stricter time frames for reimbursement. The remaining dues are to be settled in conjunction with the finalization of the new agreements.

Common premises

74. **Recommendation in paragraph 132.** The Board recommends that UNDP intensify its efforts to conclude formal agreements with other United Nations agencies as soon as possible. UNDP should also implement cost-recovery strategies to ensure recovery of the full cost of all services rendered. Furthermore, the country offices should consider apportioning the cost of common services based on the activity rendered.

75. **UNDP response.** In November 1999, UNDP issued a set of comprehensive guidelines related to cost recovery for services provided by UNDP country offices to United Nations agencies. While these guidelines have helped to improve the manner in which services are paid, they have not been fully adhered to by all country offices as well as some United Nations agencies. As such, UNDP is now in the process of revising the guidelines, taking into account the current problems. The revised guidelines would also address the approach to corporate-level agreements with United Nations agencies.

76. As to common services, there are clear guidelines for country offices to follow in the approach to apportioning costs for shared services. UNDP will continue to reinforce this issue to country offices.

3. Non-expendable equipment

Inventory control system

77. **Recommendation in paragraph 136.** The Board recommends that UNDP intensify its efforts to develop and maintain a suitable inventory control system in compliance with the financial rules and other directives.

78. **UNDP response.** Work on replacing the HQINVENT has already taken place over the past two years. Pending the ERP implementation, and as an interim solution, UNDP is utilizing the Aperture system. A limited number of features have been added to the current functionality of the Aperture inventory system, including custody/disposal, which will contribute to enhance controls, which will be in place by December 2002.

79. The Director, Administrative Services Division, Office of Finance and Administration, Bureau of Management, is responsible for the action.

4. Trust funds

Inactive trust funds

80. **Recommendation in paragraph 140.** The Board recommends that UNDP intensify its efforts to finalize all outstanding activities of inactive trust funds and

implement a formal system to track and monitor expiry dates and specific closure requirements included in trust fund agreements.

81. **UNDP response.** UNDP will continue to make all efforts to close inactive trust funds. Once the planned ERP system is in place, UNDP should also be able to track expiry dates and specific closure requirements.

82. **Recommendation in paragraph 144.** The Board recommends that the United Nations Volunteers (UNV) follow up on all inactive sub-trust funds and fully funded arrangements with a view to finalizing all outstanding activities and to comply with the specific closure requirements included in the donor agreements.

UNDP response

Trust funds

83. UNV agrees with the recommendations of the Board concerning inactive trust funds. UNV initiated action to close the inactive projects. As confirmed by the audit review, many projects were already closed. Twenty out of the 37 inactive projects (representing 10 per cent of the value of fund balances) earned interest. Information on the apportionment of interest was received from UNDP headquarters at the end of 2001. UNV did not have enough time to review the transfer of funds, based on the donor agreement, during the same accounting period. Action will be taken to transfer the interest income to either the donor or other UNV arrangements based on the donor agreement in 2002.

84. The rest of the projects (representing 90 per cent of the value of the fund balances) were operationally closed during 2001. UNV is actively working on these projects to financially close them by 31 December 2002.

Full funding

85. UNV has been aware of the inactive full-funding arrangements. The residual funds under the full-funding arrangements have been reviewed and UNV initiated the process of refunds to the donor in 2001.

86. Seventy-eight per cent of the total value amounting to $111 665 should be refunded during 2002. Donor approval was received for 13 per cent of the total value, amounting to $18 900 to transfer to other arrangements. UNV has to follow up with two other donors for the remaining $6 302 to retain the funds for other arrangements or to refund the balance.

87. UNV management will be responsible and is taking the appropriate action to resolve the above issues. To the extent possible, UNV will try to resolve the issues by 31 December 2002 and comply with the recommendations of the Board.

Trust funds in deficit

88. **Recommendation in paragraph 147.** The Board recommends that UNDP follow up on all trust funds in deficit positions with the view to recovering the

overexpenditures. The Board further recommends that UNDP implement a system to monitor such overexpenditures on trust funds.

89. **UNDP response.** UNDP will continue vigorously to follow up trust funds in deficit with a view to recovery. Once the planned ERP system is in place, UNDP should also be able to develop exception reports to highlight trust funds going into deficit in a more timely fashion.

5. Investments: segregation of incompatible functions

90. **Recommendation in paragraph 154.** The Board recommends that proper segregation of duties between investment functions be implemented, and UNDP agreed.

91. **UNDP response.** UNDP agrees that the segregation of duties within the investment function is appropriate and necessary. Responsibility for ongoing monitoring of credit risk within approved investment guidelines, performance benchmarking and reporting, and required investment accounting and reconciliations are being assigned to the Treasury Operations section to ensure proper segregation of these functions from the Cash Management Section. The Treasury Operations section will be strengthened to permit it to take on these responsibilities.

92. The Treasurer, Office of Finance and Administration, Bureau of Management, is responsible to follow up on this action.

6. Procurement

Lead time for contract letting

93. **Recommendation in paragraph 157.** The Board reiterates its recommendation that UNDP establish benchmarks for performance for contract letting and monitor performance against these standards, and UNDP agrees.

94. **UNDP response.** UNDP agrees that there is a need to establish benchmarks for performance of contracts and monitoring their performance in terms of delivery, quality and cost-effectiveness. The reason for this gap is that presently UNDP does not have any software or tool for contract management. UNDP has recently contracted PeopleSoft for implementation of ERP, which will be rolled out by 1 January 2004. This software incorporates all the tools necessary to manage contract performance.

Monitoring of supplier performance

95. **Recommendation in paragraph 159.** The Board recommends that UNDP ensure that the mechanism for evaluating supplier performance included in its Procurement Manual is optimally utilized by all units concerned with contracting.

96. **UNDP response.** The first step, to develop a mechanism for evaluating supplier performance, has been done and is incorporated in the new Procurement Manual. Implementing it requires conveying and training the procurement staff of UNDP on

how to use this mechanism, which has been incorporated in the procurement training programmes conducted by the Inter-Agency Procurement Services Office (IAPSO) and the Office of Legal and Procurement Support (OLPS).

97. Once ERP is in place by 1 January 2004, the system will take care of evaluating the supplier performance as per mechanism developed by UNDP.

Corporate/purchase card

98. **Recommendation in paragraph 164.** The Board recommends that UNDP implement proper controls to ensure that the requirements of the corporate card manual in respect of transaction limits are adhered to and that where there is a need for an increased limit, UNDP implement proper controls to ensure that expenditure is within the allotment lines.

99. **UNDP response.** The agreement with the carrier, JP Morgan Chase, does not allow for any single transaction to exceed the limit of $2 500 or a total of $10 000 per month per cardholder. Authority to exceed these amounts must be granted by the card administrator in UNDP

100. During the pilot roll out of the purchasing card, the limit for each transaction was set at $1 000. This led to some exceptions of allowing transactions up to $2 500, since the Financial Rules and Regulations allow UNDP to contract up to $2 500 without a written purchase order. With increased experience of using the purchasing card and implementation of PaymentNet Software, the limit has been increased for all cardholders to $2 500 per transaction. With this increased limit, there has been no exception over the last six months.

101. **Recommendation in paragraph 166.** The Board recommends that UNDP implement controls to ensure that each cardholder comply with the terms of payment as stipulated in the agreement between UNDP and avoid unnecessary expenditure.

102. **UNDP response.** On a monthly basis, UNDP monitors the status of payments by cardholders and would follow up with cardholders who have missed the month-end deadline for settlement of amounts due.

103. Cardholders who incur late fees would have those fees recovered from their salaries and, in cases of delinquency in excess of 60 days, the privilege of the card would be withdrawn.

104. The following controls have been established to ensure that that there are no late payments: (a) online "PaymentNet website", which allows UNDP to check who is delinquent (monitored by OLPS); and (b) JP Morgan Chase provides, on a monthly basis, the list of cardholders who are delinquent by five days. This allows UNDP to expedite the payment.

7. Internal oversight reports

105. **Recommendation in paragraph 170.** The Board recommends that UNDP revise its programme of work for internal audit to include an appropriate level of coverage on financial procedures and controls at headquarters.

106. **UNDP response.** The internal audit plan for the last quarter of 2002 included an audit of financial procedures and controls at headquarters. This audit, however, had to be postponed until 2003 as a result of staff vacancies and because OAPR is undergoing a comprehensive repositioning exercise.

107. **Recommendation in paragraph 173.** The Board recommends that all outstanding recommendations be followed up with country offices, and the Office of Audit and Performance Review agreed.

108. **UNDP response.** OAPR is actively following up outstanding recommendations

109. **Recommendation in paragraph 175.** The Board recommends that stricter time frames be established and enforced to improve and strengthen the processes of reporting and follow-up.

110. **UNDP response.** OAPR now strictly enforces a four-week standard for the time between the end of fieldwork and the submission of the draft report to the client.

8. Information and communications technology

Computer audit of the general controls surrounding the Integrated Management Information System

111. **Recommendation in paragraph 188.** The Board recommends that UNDP:

(a) Establish, formally approve, implement and update on a regular basis a security policy;
(b) Compile formally documented programme change control procedures;
(c) Complete and update its system development life-cycle;
(d) Establish and regularly test an off-site back-up location;
(e) Formally review network, intruder detection and activity violation reports;
(f) Ensure that each Unix administration uses its own user identification;
(g) Approve service-level agreements with UNFPA and UNOPS.

112. **UNDP response.** UNDP is in accord with these recommendations and notes that those not already implemented will be addressed in the context of a complete reorganization of the Office for Information Systems and Technology (OIST) and a top-to-bottom migration of its information and communications technology (ICT) platform to a PeopleSoft ERP system. Recommendations with significant operational and/or cost implications will be implemented in conjunction with these projects rather than being applied to systems and practices that are being phased out:

(a) UNDP has a network security policy applicable to worldwide ICT operations that was updated in June 2001. It will be revised and updated as needed in

conjunction with the rollout of the ERP. UNDP follows United Nations guidelines on access control for IMIS.

In the OIST reorganization, a dedicated Production Services Unit will assume responsibility for security and change control issues. This Unit will be fully functional by 1 January 2003 at the latest.

(b) The new Office of the Chief Information Officer (CIO) in OIST will revise and promulgate new standards for documentation and system control procedures that will be applied by the Production Services Unit mentioned in (a) above. Users are currently notified in advance of any planned changes to systems or infrastructure, after quality assurance and testing have been completed. All IMIS changes are managed in accordance with United Nations procedures.

(c) The system development life-cycle documentation was updated at the end of 2001. In the OIST reorganization, a new Project Practices and Management Unit is being established. Supported by the Office of the CIO, it will ensure that all system development activities are conducted in accordance with established and regularly updated standards.

(d) At present, UNDP relies on the United Nations Information Technology Services Division (ITSD) for IMIS backup arrangements (taken both at the Secretariat building and the DC2 building), while a separate backup copy of IMIS production data is retained in the FF building. The IMIS backup arrangement is reflected in the memorandum of understanding between the United Nations ITSD and UNDP OIST revised in June 2002.

The ERP implementation will specifically include disaster recovery plans and approaches that will be in place prior to the first rollout scheduled for 1 January 2004.

(e) Network monitoring reports are produced and available online to users and management for review. Managers in technical areas make use of these monitoring statistics and advise senior management of issues and concerns.

(f) UNDP has its own unique administrator user ID and password for the IMIS production databases hosted at the United Nations ITSD. UNDP database administrators also have their own unique user IDs and passwords for the copied IMIS production databases hosted in OIST in the FF building.

(g) UNDP has been in discussions and negotiations with UNFPA and UNOPS on cost-sharing regarding ICT matters. Memoranda of understanding on services provided, similar to the one established between the United Nations ITSD and UNDP OIST on IMIS production and operations, will be made with UNFPA and UNOPS towards the end of 2002.

9. Cases of fraud and presumptive fraud

113. **Recommendation in paragraph 192.** The Board recommends that UNDP develop its own fraud-prevention plan, including fraud-awareness initiatives, in

discussion with the Administration of the United Nations and the other funds and programmes to obtain the benefit of best practice, where available, in specific or all elements being considered.

114. **UNDP response.** UNDP agrees with the overall recommendation and the more specific recommendations regarding elements to be considered in the development of a fraud-prevention strategy. UNDP intends to continue the work to develop such a strategy that has already been initiated, together with UNFPA and UNOPS, the initial steps of which will include: (a) the formulation of a common vision/objective for a fraud-prevention strategy; (b) examination of "industry standards" for fraud prevention, i.e., to what extent other organizations within and outside the United Nations system have strategies that could be adapted/built upon; (c) establishment of an "inventory" of measures that may already contain elements of fraud prevention (such as regulations, rules and manuals); and (d) identification of priority areas for the development and implementation of fraud and corruption-prevention measures. It is recognized that a strategy must be developed incrementally, taking into consideration the time and resources that will have to be invested to ensure that fraud prevention becomes sufficiently effective. This will be completed in 2003.

115. The Director, Office of Legal and Procurement Support, is responsible for this action.